



CCRC

Actuaries, LLC

STATE OF WEST VIRGINIA



PUBLIC EMPLOYEES INSURANCE AGENCY

**Quarterly Report
March 31, 2006**

Fiscal Years 2006-2010

June 2006



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Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC ("CCRC Actuaries").

CCRC Actuaries has been retained by the Finance Board ("Board") of the West Virginia Public Employees Insurance Agency ("Agency") to assist it as provided under the West Virginia Public Employees Insurance Act ("Act") as amended by Senate Bill 702 in 1998 and by House Bill 4654 ("HB 4653") in 2006. As provided under the Act, the Board has retained CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2006 ("FY 2006") and to provide quarterly financial reports. In addition, the analysis is to be on an accrued and incurred reporting basis for a projection period of five years. Accordingly, CCRC Actuaries has additionally provided preliminary forecasts for the fiscal years ending June 30, 2007 ("FY 2007"), June 30, 2008 ("FY 2008"), June 30, 2009 ("FY 2009"), and June 30, 2010 ("FY 2010"). This opinion of plan adequacy is based on the projections through FY 2010, using updated future revenue and plan modifications provided by the Finance Board in the plan adopted in December 2005.

Under the Act, it is the Board's responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the amended Act, the Board must provide a financing plan in which the State Fund revenue costs are financed 81.5% by State employers and 18.5% by State employees in FY 2007, and 80% by State employers and 20% by State employees in FY 2008 through FY 2010. This calculation is mandated by the PEIA enabling legislation to include all revenue contributed by State employers and State employees.

In FY 2007, PEIA will receive a Direct Transfer of \$6.7 million to offset the loss of employee premiums. It is also the Board's responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2010.

It should be noted that the projections in this report continue to include substantial anticipated savings from the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D"). Under Medicare Part D, PEIA has elected the Retiree Drug Subsidy ("RDS") option and will receive 28% of Medicare drug expenditures between \$250 and \$5,000 for individual in 2006. CCRC Actuaries has projected the RDS to be \$8,000,000 on an accrued basis in FY 2006 from Medicare Part D. In future years, we have assumed that Medicare Part D will save PEIA approximately \$20,000,000 in Fiscal Year 2007 and \$23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drugs inflation trends. It should be noted that the prescription drugs claims expenses are net of Medicare Part D savings.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated to result in PEIA hospital savings of approximately \$13,000,000 in Fiscal Year 2006. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in FY 2009 and FY 2010.

In preparing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that since the adoption of the new financial plan in early December, PEIA has experienced slightly favorable claim expense. In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2006 through FY 2010 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. In addition, we are forecasting that PEIA will meet the 80%/20% cost share requirement for State revenue in FY 2008 based on the scheduled revenue increases of the financial plan approved and amended by the Finance Board in December 2005.

This conclusion is based on significant revenue increases in employer and employee premiums through FY 2010 as approved by the Board in December 2005. It should be noted that this report has not been adjusted for the partitioning of transactions included herein which may take place as a result of the creation of the West Virginia Retiree Health Benefit Trust Fund.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. This report contemplates significant financial savings impact resulting from the implementation of Medicare Part D. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.



Dave Bond, F.S.A., M.A.A.A.
Managing Partner



Bradley Paulis
Reviewing Partner

West Virginia Public Employees Insurance Agency

Report of Independent Actuary

March 31, 2006 Quarterly Report

OVERVIEW

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their dependents. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled, based upon claims data collected by PEIA's third party administrators through May 2006 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund, Retirees Fund, and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate total revenue levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit and managed care enrollment will not change from June 2006 enrollment levels for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. While we have recently observed an increase of 994 retirees from June 2005 to June 2006, we note that from June 2003 through June 2005, the average annual increase in retirees was 1,287, slightly exceeding our current assumption.

In aggregate, June 2006 enrollment has increased by 715 coverages since the end of FY 2005. Preferred Provider Benefit enrollment has increased by 1,090 in total over the same period, while managed care enrollment continues to decline, with 375 less coverages. The most significant enrollment changes in FY 2006 include the previously mentioned increase of 994 total retiree coverages. In the State Fund, there continues to be a transfer of coverage from managed care to Preferred Provider Benefit coverage with overall active State enrollment declining by 616 coverages from the end of FY 2005 to June 2006. The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2004, June 2005 and June 2006 for purposes of comparison:

PEIA Fund	Coverage	Preferred Provider Benefit			Managed Care		
		Jun-04	Jun-05	Jun-06	Jun-04	Jun-05	Jun-06
State Active	Single	17,915	18,783	18,838	4,015	3,476	3,388
	Children	4,688	4,948	4,933	899	708	673
	<u>Family</u>	<u>30,490</u>	<u>30,993</u>	<u>30,737</u>	<u>5,093</u>	<u>4,382</u>	<u>4,105</u>
	Total	53,093	54,724	54,508	10,007	8,566	8,166
Local Active	Single	3,438	3,549	3,767	386	383	376
	Children	576	592	594	175	155	157
	<u>Family</u>	<u>4,490</u>	<u>4,397</u>	<u>4,503</u>	<u>111</u>	<u>103</u>	<u>119</u>
	Total	8,504	8,538	8,864	672	641	652
Retirees	Medicare Single	15,513	15,714	16,007	-	-	-
	<u>Medicare Family</u>	<u>8,748</u>	<u>9,153</u>	<u>9,385</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Medicare Total	24,261	24,867	25,392	-	-	-
	Non Medicare Single	2,515	2,696	2,914	187	183	191
	<u>Non Medicare Family</u>	<u>3,703</u>	<u>3,997</u>	<u>4,234</u>	<u>183</u>	<u>175</u>	<u>181</u>
	Non Medicare Total	6,218	6,693	7,148	370	358	372
	Retiree Total	30,479	31,560	32,540	370	358	372
Plan Total		92,076	94,822	95,912	11,049	9,565	9,190

B. Changes in Claim Backlog

The medical claim backlog has been relatively stable throughout Fiscal Year 2005 and Fiscal Year 2006.

Month	Average Backlog
July 2001	68,000
August 2001	72,000
September 2001	81,000
October 2001	74,000
November 2001	97,000
December 2001	113,000
January 2002	80,000
February 2002	70,000
March 2002	72,000
April 2002	63,000
May 2002	71,000
June 2002	73,000
July 2002	93,000
August 2002	95,000
September 2002	85,000
October 2002	74,000
November 2002	68,000
December 2002	79,000
January 2003	88,000
February 2003	84,000
March 2003	86,000
April 2003	78,000
May 2003	72,000
June 2003	65,000
July 2003	68,000
August 2003	69,000
September 2003	70,000
October 2003	79,000
November 2003	75,000
December 2003	83,000
January 2004	86,000
February 2004	82,000
March 2004	81,000
April 2004	82,000
May 2004	78,000
June 2004	73,000

Month	Average Backlog
July 2004	81,000
August 2004	77,000
September 2004	76,000
October 2004	75,000
November 2004	71,000
December 2004	80,000
January 2005	73,000
February 2005	83,000
March 2005	84,000
April 2005	84,000
May 2005	78,000
June 2005	83,000
July 2005	89,000
August 2005	92,000
September 2005	82,000
October 2005	77,000
November 2005	71,000
December 2005	85,000
January 2006	81,000
February 2006	85,000
March 2006	86,000
April 2006	79,000
May 2006	84,000

C. Trend Analysis

CCRC Actuaries performed the detailed medical and prescription drugs trend analysis in the reports titled, “Medical Trend Report - September, 2005” and “Prescription Drugs Trend Report - September, 2005”. This report maintains the overall trend assumptions based on this analysis and used in the December 2005 Financial Plan development process. The current projection assumes the trends on the following table:

Claim Type	FY 2006 Trend
Non-Medicare – Medical	8.5%
Non-Medicare – Drugs	17.0%
Medicare – Medical	9.0%
Medicare – Drugs	17.0%

In addition, we have assumed that trends will increase by 0.5% in each successive Fiscal Year beginning in FY 2008. At the Finance Board’s request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The following chart summarizes the trend results observed for the plan using data through May 2006. It is important to note that these trends have not been adjusted to reflect savings as a result of the expansion of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumption.

PEIA Historical Trends

Fiscal Year	Medical Medicare	Medical Non-Medicare	Drugs Medicare	Drugs Non-Medicare	Total
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-15%	-6%
2001	6%	17%	30%	35%	20%
2002	3%	5%	19%	17%	8%
2003	3%	1%	13%	15%	6%
2004	12%	10%	13%	10%	10%
2005	6%	6%	13%	12%	8%

D. Enrollment, Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through May 2006 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for the State Fund, the Local Fund and the Retiree Fund for both self-funded and managed care coverages. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective expected claim cost for each coverage type. The adjusted exposure methodology weights the expected claim cost under each coverage type for single, member and children, and family coverages based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. The methodology results in different weighting for coverages whether PEIA is primary or secondary payor to Medicare. Based on this methodology, the projection of FY 2006 claims and expenses are summarized in the following chart. It should be noted that all of these numbers are on a per coverage basis.

Fiscal Year 2006 Projection			Revenue		Expenses		
Fund	Program	Coverages	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	54,496	\$ 556	\$ 108	\$ 356	\$ 124	
	Managed Care	8,219	\$ 534	\$ 127			\$ 494
	Total	62,715					
Local	PPB	8,724	\$ 630	\$ -	\$ 337	\$ 103	
	Managed Care	641	\$ 569	\$ -			\$ 427
	Total	9,365					
Retiree	PPB - Medicare	25,252			\$ 165	228	
	PPB – Non-Medicare	7,162			\$ 381	185	
	PPB - Total	32,414	\$ -	\$ 140	\$ 213	198	
	Managed Care	362	\$ -	\$ 433			\$ 961
	Total	32,776					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund.

The following chart summarizes the additional revenues from employers, employees, retirees, Medicare Part D reimbursements and direct transfers assumed in the report. The enactment of House Bill 4654, changes in enrollment and favorable plan experience require some modifications to the Financial Plan implemented by the Finance Board in December 2005. The schedule below assumes that the 80%/20% cost sharing will be met in FY 2008 and a plan reserve of 13% will remain at the end of FY 2010.

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Additional State Employer Revenue	\$5,000,000	\$20,000,000	\$68,000,000	\$80,000,000
Additional Local Agency Revenue	\$2,000,000	\$4,000,000	\$8,000,000	\$9,500,000
Additional Employee Premiums	\$11,700,000	\$15,200,000	\$17,000,000	\$20,000,000
Additional Retiree Premiums	\$4,100,000	\$10,500,000	\$12,400,000	\$15,500,000
Medicare Part D Savings	\$20,000,000	\$23,000,000	\$27,000,000	\$32,000,000
Direct Transfer	\$6,700,000	\$0	\$6,000,000	\$6,000,000

Under H. B. 4654, Public Employees Insurance Agency Finance Board is allowed to delay the eighty-twenty split between employer and employee due to a partial offset by a legislative appropriation. As a result, the scheduled employee premium increase of \$18,400,000 has been reduced by \$6,700,000 to \$11,700,000. In FY 2008, the scheduled employee premium increase has been increased from \$7,000,000 to \$15,200,000. Employer revenue changes include a reduced premium increase in FY 2008 of \$20,000,000 compared to the initial Board Plan of \$25,000,000. Based on Finance Board input this projection is based on the assumption that retiree premium percentage increases in the future will be identical to active employee premium percentage increases for Fiscal Year 2008 and later.

Future fiscal year state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance Program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from approximately \$2.9 million in FY 2006 to approximately \$5.9 million in FY 2010, based on the substantial increases in retiree premiums assumed in the financial plan.

E. Provider Reimbursement Changes

The projections assume significant savings for Medicare Part D and the Medicaid/PEIA Hospital Bill. We have assumed that PEIA's continual participation in the Retiree Drug Subsidy program under Medicare Part D will save PEIA approximately \$8,000,000 in Fiscal Year 2006 and \$20,000,000 in Fiscal Year 2007 and increasing thereafter depending on Medicare enrollment and prescription drugs inflation. It should be noted that the prescription drugs claims expenses are net of Medicare Part D savings.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated to result in PEIA hospital savings of approximately \$13,000,000 in Fiscal Year 2006. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

FISCAL YEAR 2006 FORECAST

The financial forecast for FY 2006 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2006, projects accrued revenue of \$653,938,177 and incurred plan expenses of \$612,607,959 to produce a fiscal year surplus of \$41,330,218. This surplus was last projected to be \$32,500,470 in the December 31, 2005 Quarterly Report dated March 2006. The principal reason for the approximately \$9 million improvement in surplus for Fiscal Year 2006 is the result of lower than projected medical and drugs overall claim costs, and the additional revenues in COBRA premiums and the terminated Non-Participating Local Agency Retiree premiums.

Under the Baseline Scenario, FY 2006 is projected to end with a reserve of \$209,913,498, which represents 31% of projected expenditures in FY 2007. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$212,530,362 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$207,316,447.

FISCAL YEAR 2007 FORECAST

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007, projects accrued revenue of \$683,485,028 and incurred plan expenses of \$673,864,992 to produce a fiscal year surplus of \$9,620,036. It was last projected to be a surplus of \$268,315 in the December 31, 2005 Quarterly Report dated March 2006.

Under the Baseline Scenario, FY 2007 is projected to end with a reserve of \$219,533,534, which represents 29% of projected expenditures in FY 2008. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$235,748,550 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$203,256,193.

FISCAL YEAR 2008 FORECAST

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008, projects accrued revenue of \$732,230,144 and incurred plan expenses of \$755,678,641 to produce a fiscal year deficit of (\$23,448,497). It was last projected to be a deficit of (\$26,288,876) in the December 31, 2005 Quarterly Report dated March 2006.

Under the Baseline Scenario, FY 2008 is projected to end with a reserve of \$196,085,037, which represents 22% of projected expenditures in FY 2009. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$239,823,260 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$151,642,560.

FISCAL YEAR 2009 FORECAST

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009, projects accrued revenue of \$849,437,133 and incurred plan expenses of \$875,911,971 to produce a fiscal year deficit of (\$26,474,838). It was last projected to be a deficit of (\$19,044,867) in the December 31, 2005 Quarterly Report dated March 2006.

Under the Baseline Scenario, FY 2009 is projected to end with a reserve of \$169,610,199, which represents 17% of projected expenditures in FY 2010. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$259,940,371 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$76,663,568.

FISCAL YEAR 2010 FORECAST

The financial forecast for FY 2010 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2010, projects accrued revenue of \$981,839,560 and incurred plan expenses of \$991,626,732 to produce a fiscal year deficit of (\$9,787,172). It was last projected to be a surplus of \$6,046,525 in the December 31, 2005 Quarterly Report dated March 2006.

Under the Baseline Scenario, FY 2010 is projected to end with a reserve of \$159,823,027, which represents 14% of projected expenditures in FY 2011. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$319,730,417 and under the Pessimistic Scenario, the ending reserve is expected to decrease to (\$6,795,695).

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

SUMMARY

With projected changes to the Plan as adopted in the Financial Plan by the PEIA Finance Board, we are forecasting that the Plan will meet the 10% reserve target through the projection period ending with the Fiscal Year 2010 using the Baseline assumptions. These projections are based on significant Medicare Part D subsidies and significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drugs program, can be expected to further exacerbate the difficulty of projecting future medical and drugs claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. On the national level, it would not be surprising to see significant changes in the Medicare Part D program, which will impact PEIA financial projections. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the legislatively mandated requirement of a five-year projection, it should be assumed that constant modifications would be required.

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2006

PERIOD 7/1/2005 - 6/30/2006

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 65,947,445	\$ -	\$ 363,853,906	\$ 429,801,351
Employer Premiums - MCO	4,380,200	-	52,652,695	57,032,895
Employee Premiums - PPB	-	54,544,364	70,601,004	125,145,368
Employee Premiums - MCO	-	1,880,301	12,566,531	14,446,832
Direct Transfers	-	-	5,000,000	5,000,000
Investment Income	946,453	-	8,040,935	8,987,388
Retiree Subsidy Revenue	-	6,002,932	-	6,002,932
COBRA Premiums	302,000	-	1,208,000	1,510,000
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 72,017,625	\$ 62,427,597	\$ 519,492,955	\$ 653,938,177
<u>Program Expenses</u>				
Medical Claims	\$ 35,234,304	\$ 82,657,312	\$ 233,129,858	\$ 351,021,474
Prescription Drug Claims	10,732,902	77,126,347	81,292,952	169,152,201
Managed Care Capitations	3,281,373	4,174,251	48,731,264	56,186,888
Administration	2,696,685	2,307,768	19,486,153	24,490,606
Life Insurance	754,307	642,833	5,326,273	6,723,413
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	2,850,182	-	2,850,182
Director's Discretionary Fund	44,184	153,587	302,229	500,000
Total Expenses	\$ 52,948,375	\$ 169,912,280	\$ 389,747,304	\$ 612,607,959
Retiree Subsidy Allocations	\$ 13,086,480	\$ (107,484,683)	\$ 94,398,203	\$ -
Fiscal Year Results	\$ 5,982,770	\$ -	\$ 35,347,448	\$ 41,330,218
Beginning Plan Reserve	16,215,366	-	152,367,914	168,583,280
Ending Plan Reserve	\$ 22,198,136	\$ -	\$ 187,715,362	\$ 209,913,498

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 3,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 2,850,000	Non-Medicare	8.5%	17.0%
Additional Retiree Premiums	\$ 2,000,000	Medicare	9.0%	17.0%
Direct Transfers	\$ 5,000,000	Capitations		13.6%
Number of Net New Retirees	1,000	Administrative Expense		11.9%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2007

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 67,822,879	\$ -	\$ 368,221,831	\$ 436,044,710
Employer Premiums - MCO	4,504,766	-	53,284,770	57,789,536
Employee Premiums - PPB	-	63,348,781	80,533,146	143,881,927
Employee Premiums - MCO	-	2,183,697	14,334,389	16,518,086
Direct Transfers	-	-	6,700,000	6,700,000
Investment Income	1,219,991	-	9,655,093	10,875,084
Retiree Subsidy Revenue	-	4,103,807	-	4,103,807
COBRA Premiums	312,093	-	1,248,374	1,560,467
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 74,301,256	\$ 69,636,285	\$ 539,547,487	\$ 683,485,028
<u>Program Expenses</u>				
Medical Claims	\$ 38,689,290	\$ 91,572,599	\$ 252,785,386	\$ 383,047,275
Prescription Drug Claims	12,705,793	81,376,248	95,051,966	189,134,007
Managed Care Capitations	3,609,510	4,591,676	53,604,390	61,805,576
Administration	2,831,519	2,423,157	20,460,461	25,715,137
Life Insurance	792,022	674,975	5,592,587	7,059,584
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	3,420,218	-	3,420,218
Director's Discretionary Fund	179,646	604,525	1,215,829	2,000,000
Total Expenses	\$ 59,012,400	\$ 184,663,398	\$ 430,189,194	\$ 673,864,992
Retiree Subsidy Allocations	\$ 13,923,070	\$ (115,027,113)	\$ 101,104,043	\$ -
Fiscal Year Results	\$ 1,365,786	\$ -	\$ 8,254,250	\$ 9,620,036
Beginning Plan Reserve	22,198,136	-	187,715,362	209,913,498
Ending Plan Reserve	\$ 23,563,922	\$ -	\$ 195,969,612	\$ 219,533,534

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 5,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 11,700,000	Non-Medicare	8.5%	17.0%
Additional Retiree Premiums	\$ 4,100,000	Medicare	9.0%	17.0%
Direct Transfers	\$ 6,700,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2008

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 71,573,748	\$ -	\$ 385,693,530	\$ 457,267,278
Employer Premiums - MCO	4,753,897	-	55,813,071	60,566,968
Employee Premiums - PPB	-	77,692,297	93,436,441	171,128,738
Employee Premiums - MCO	-	2,678,136	16,631,094	19,309,230
Direct Transfers	-	-	-	-
Investment Income	1,311,733	-	10,228,098	11,539,831
Retiree Subsidy Revenue	-	4,794,068	-	4,794,068
COBRA Premiums	322,524	-	1,290,096	1,612,620
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 78,403,429	\$ 85,164,501	\$ 568,662,214	\$ 732,230,144
<u>Program Expenses</u>				
Medical Claims	\$ 42,083,896	\$ 102,985,551	\$ 274,964,823	\$ 420,034,270
Prescription Drug Claims	14,900,992	99,082,093	111,474,239	225,457,324
Managed Care Capitations	3,970,461	5,050,844	58,964,829	67,986,134
Administration	2,973,095	2,544,314	21,483,484	27,000,893
Life Insurance	831,623	708,724	5,872,216	7,412,563
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	4,104,262	-	4,104,262
Director's Discretionary Fund	176,563	626,089	1,197,348	2,000,000
Total Expenses	\$ 65,141,250	\$ 215,101,877	\$ 475,435,514	\$ 755,678,641
Retiree Subsidy Allocations	\$ 15,744,208	\$ (129,937,376)	\$ 114,193,168	\$ -
Fiscal Year Results	\$ (2,482,029)	\$ -	\$ (20,966,468)	\$ (23,448,497)
Beginning Plan Reserve	23,563,922	-	195,969,612	219,533,534
Ending Plan Reserve	\$ 21,081,893	\$ -	\$ 175,003,144	\$ 196,085,037

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 20,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 4,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 15,200,000	Non-Medicare	9.0%	17.5%
Additional Retiree Premiums	\$ 10,500,000	Medicare	9.5%	17.5%
Direct Transfers	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2009

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	\$ 79,075,486	\$ -	\$ 445,097,308	\$ 524,172,794
Employer Premiums - MCO	5,252,159	-	64,409,293	69,661,452
Employee Premiums - PPB	-	95,049,395	107,867,758	202,917,153
Employee Premiums - MCO	-	3,276,457	19,199,777	22,476,234
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,231,548	-	9,699,594	10,931,142
Retiree Subsidy Revenue	-	5,600,430	-	5,600,430
COBRA Premiums	333,303	-	1,333,214	1,666,517
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 86,334,023	\$ 103,926,282	\$ 659,176,828	\$ 849,437,133
Program Expenses				
Medical Claims	\$ 45,986,845	\$ 119,515,138	\$ 321,498,233	\$ 487,000,216
Prescription Drug Claims	17,549,990	120,543,199	131,291,381	269,384,570
Managed Care Capitations	4,367,507	5,555,928	64,861,312	74,784,747
Administration	3,121,750	2,671,530	22,557,658	28,350,938
Life Insurance	873,204	744,160	6,165,827	7,783,191
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	4,925,114	-	4,925,114
Director's Discretionary Fund	168,001	634,752	1,197,247	2,000,000
Total Expenses	\$ 72,271,917	\$ 254,589,821	\$ 549,050,233	\$ 875,911,971
Retiree Subsidy Allocations	\$ 17,447,619	\$ (150,663,539)	\$ 133,215,920	\$ -
Fiscal Year Results	\$ (3,385,513)	\$ -	\$ (23,089,325)	\$ (26,474,838)
Beginning Plan Reserve	21,081,893	-	175,003,144	196,085,037
Ending Plan Reserve	\$ 17,696,380	\$ -	\$ 151,913,819	\$ 169,610,199

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 68,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 8,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 17,000,000	Non-Medicare	9.5%	18.0%
Additional Retiree Premiums	\$ 12,400,000	Medicare	10.0%	18.0%
Direct Transfers	\$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2010

PERIOD 7/1/2009 - 6/30/2010

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	\$ 87,983,800	\$ -	\$ 514,984,106	\$ 602,967,906
Employer Premiums - MCO	5,843,845	-	74,522,495	80,366,340
Employee Premiums - PPB	-	116,894,389	124,845,778	241,740,167
Employee Premiums - MCO	-	4,029,483	22,221,757	26,251,240
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,141,932	-	9,095,927	10,237,859
Retiree Subsidy Revenue	-	6,542,422	-	6,542,422
COBRA Premiums	344,443	-	1,377,772	1,722,215
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 95,755,547	\$ 127,466,294	\$ 758,617,719	\$ 981,839,560
Program Expenses				
Medical Claims	\$ 50,481,783	\$ 135,423,462	\$ 352,922,757	\$ 538,828,002
Prescription Drug Claims	20,757,690	146,955,479	155,288,170	323,001,339
Managed Care Capitations	4,804,258	6,111,521	71,347,444	82,263,223
Administration	3,277,837	2,805,107	23,685,541	29,768,485
Life Insurance	916,865	781,368	6,474,118	8,172,351
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	5,910,137	-	5,910,137
Director's Discretionary Fund	165,322	655,301	1,179,377	2,000,000
Total Expenses	\$ 80,608,375	\$ 298,642,375	\$ 612,375,982	\$ 991,626,732
Retiree Subsidy Allocations	\$ 19,184,893	\$ (171,176,081)	\$ 151,991,188	\$ -
Fiscal Year Results	\$ (4,037,721)	\$ -	\$ (5,749,451)	\$ (9,787,172)
Beginning Plan Reserve	17,696,380	-	151,913,819	169,610,199
Ending Plan Reserve	\$ 13,658,659	\$ -	\$ 146,164,368	\$ 159,823,027

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 80,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 9,500,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 20,000,000	Non-Medicare	10.0%	18.5%
Additional Retiree Premiums	\$ 15,500,000	Medicare	10.5%	18.5%
Direct Transfers	\$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%